
Essay

EUROPEAN INTEGRATION AND ECONOMIC CRISIS UP TO COVID-19. FROM RECONSTRUCTION TO THE TWIN NEOLIBERAL AND NEOMERCANTILIST CHALLENGES ¹

Von Laurent Warlouzet

To what extent has European integration been linked to economic crisis, from its origins during the postwar reconstruction period to the current Covid-19 pandemic? This paper will use a historical approach to argue that 1) European integration has unfolded around a market-oriented core, supplemented by social and neomercantilist features², that 2) the balance between those three aspects of integration approaches shifted decisively with the successive economic and financial crises unfolding since 1947 and that 3) the current Covid-19 crisis is calling into question the original balance by presenting a dual neoliberal and neomercantilist challenge.

This article does not argue that only economic and financial crises have shaped European Integration. Economic crises are defined by negative or slow growth, while state financial crises are characterized by important public deficits that force a government to seek assistance from abroad, as it has no access to markets to find funding at a reasonable cost. Massive geopolitical events—such as the world wars, the Cold War, and decolonization—as well as political ideologies—from Christian-democracy to socialist internationalism—have also played significant roles in European integration, but this article will not discuss them.³ This paper will rather pinpoint the extent to which the various economic and financial crises in Europe have decisively, but not uniquely, affected the economic orientation of European institutions.

European economic policies have at both a national and supranational level been marked by three approaches: market-oriented, social, and neomercantilist.⁴ The proponents of market-oriented policies believe that removing obstacles to free-market foster growth and improve the general wellbeing. Neoliberals represent a particular, radical version of this category: they target the welfare state as an economic and political obstacle to their quest of a society dominated by the market and the principles of competition. By contrast, those who promote a social approach to economic policies prioritize the protection of the weakest from the vagaries

¹ Dieser Beitrag ist zuerst erschienen in: H-Soz-Kult, 11.11.2020, www.hsozkult.de/debate/id/diskussionen-5096.

² Those three categories are defined below.

³ For example, the birth of the ECSC, the Single Act, and the Lisbon Treaty do not fall into this category and will not be examined.

⁴ For a full explanation of this typology, see: Laurent Warlouzet, *Governing Europe in a globalising world. Neoliberalism and its alternatives following the 1973 oil crisis*, London 2018 Chapter 1.

of the free market. Hence the necessity of developing measures to shield poor people, migrants, women, and the environment (since the poor are the main victims of environmental hazards) from market failure. The more ambitious socially-oriented policies aim to structure the market within an egalitarian and redistributive economic framework.

Beyond the classic opposition between free-market and social policies, it is necessary to consider a third category: neomercantilism. Neomercantilists favor the promotion of national companies through aggressive measures such as subsidies or specific pieces of legislation without resorting to outright protectionism (as was the case with mercantilism in the early modern era). This category is useful in moving beyond the dualistic pro- and anti-market rhetoric. Not all opponents of the free market have social goals in mind; some of them simply want to limit competition in order to increase the profits of selected companies. At other times, neomercantilism has been associated with social purposes, such as when a company receives a monopoly or a subsidy to perform a social duty. Neomercantilism has always been influential, and not only through ‘heroic’ industrial policy—as in the French case where the French state was keen to publicize its promethean intervention in business from Concorde to the TGV—but also elsewhere through an active “economic patriotism” that has been recently prominent in many countries in Europe and elsewhere, such as in China.⁵ Even in Germany, the tightly-interlocked network of local banks that benefit from public guarantees and local authorities, which provides cheap loans and protection from foreign takeovers, is also a form of neomercantilism (albeit more conducive to free-trade dynamics).⁶ Beyond Europe, neomercantilism has been at the heart of the industrial development of Eastern Asian economies, from Japan to China. The USA has used neomercantilist tools selectively, either to protect ailing industries or to launch new products in high-tech industries such as in the computer industry and information technology.⁷ These three categories are anachronistic ideal-types, that were not used as such by actors in the past; they are idealized typologies useful for making comparisons across time and space.

⁵ Vivien A. Schmidt, *From State to Market?: The Transformation of French Business and Government*, Cambridge 1996; Ben Clift / Cornelia Woll, *Economic patriotism: reinventing control over open markets*, in: *Journal of European Public Policy* 19,3 (2012), pp. 307-323.

⁶ On this German feature: Peter J. Katzenstein, *Policy and Politics in West Germany. The Growth of a Semisovereign State*, Philadelphia 1987; Ralf Ahrens, *Sectoral Subsidies in West German Industrial Policy: Programmatic Objectives and Pragmatic Applications from the 1960s to the 1980s*, in: Ralf Ahrens / Andreas Eckert (eds), *Industrial Policy in Western Europe since the 1960s. Economic History Yearbook/Jahrbuch für Wirtschaftsgeschichte* 58,1 (2017), pp. 59-82; see also some elements in: Andreas Wirsching, *Abschied vom Provisorium, 1982-1990*, Munich 2007, S. 247-254; on a regional level, see: Stefan Grüner, *Geplantes "Wirtschaftswunder"? Industrie- und Strukturpolitik in Bayern 1945 bis 1973*, Munich 2009; Stefan Goch, *Eine Region im Kampf mit dem Strukturwandel: Ruhrgebiet*, Essen 2002.

⁷ Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs Private Sector Myth*, London 2013.

From an institutional point of view, this article will consider all European organizations of economic cooperation and not only the European Union and its forerunner, since it is necessary to “provincialize” the EU, i.e. to not take its centrality for granted.⁸

This article will proceed in three sections. The first covers the decades immediately after the economic and financial crises that had led to the birth of an economic model of European cooperation based on a market-oriented core. The second part will be devoted to the period of partial neoliberalization starting after the economic crisis of the 1970s. The final part will consider the current Covid-19 crisis in a mid-term perspective, by considering the dual neoliberal and neomercantilist challenges that the EU is currently facing.

Financial crisis at the heart of the original model of European integration

Western Europe emerged from World War Two ravaged and ruined. While reconstruction started at a brisk pace, most former belligerent countries were confronted with major financial difficulties in 1947-48. It is well known that, at this point, the USA decided to assist Europe financially to overcome this crisis, and to cement the Atlantic bloc within the context of the Cold War. What is remembered less is that the Marshall Plan allowed the European integration process to start not with the Schuman Declaration on 9 May 1950—which is celebrated today as “Europe’s Day”—but more mundanely on 16 April 1948, when the Organization for European Economic Co-operation (OEEC) was founded. It was entrusted with the implementation of the Marshall Plan, not only by funneling US credits but also by incorporating all of its members into a common legal framework designed to progressively reestablish the free movement of goods and payments. This new organization was a remarkable innovation, since an obvious alternative would have been for the USA to extend their network of bilateral lending agreements, and/or to use the Bretton-Woods institutions such as the IMF, the BIRD, and the GATT to do so. But Washington, in connection with advocates of European and Atlantic cooperation, sought to forge stronger relationships between the former foes, and hence to avoid the resumption of sharp oppositions as was the case in the post-World War I period. As historians like Alan Milward have noted, the Marshall Plan cannot be considered the sole source of European reconstruction, but it did play an important part in it, especially in helping countries like the Netherlands, France, and Italy to cope with the 1947-48 financial crisis.⁹ From an economic point of view, the OEEC was a market-oriented venture, as it was predicated upon the necessity of returning to international free trade. Socially-oriented economic policies were

⁸ Kiran Klaus Patel, Provincialising European union: Co-operation and Integration in Europe in a Historical Perspective, in: Contemporary European History 22,4 (2013), pp. 649-673.

⁹ Alan S. Milward, The Reconstruction of Western Europe, 1945-1951, London 1984.

central in the organization of Western Europe through the distribution of Marshall Plan funds, and, considering the fact that the liberalization process was very gradual (it allowed many exemptions and safeguard clauses).

The European Economic Community (EEC) also originated from a financial crisis, albeit not a European one. The Treaty of Rome, which created the European Community and which is still in place today (in an amended version), was signed in March 1957 in a prosperous Western Europe. Only France was undergoing some financial strain due to the Algerian war and to an overvalued currency which worsened its trade deficit. Those difficulties were compounded over the course of 1957, culminating in the humiliation of the French government touring Western donors in the winter of 1957-58, before its acceptance of international loans in January 1958. A few months later, the French political regime collapsed under the division of its political establishment over Algeria and the threat of a pronunciamiento. Eventually, the wartime leader Charles de Gaulle came back to power and restored political stability by setting up a new regime, the Fifth Republic, and by building his legitimacy on regular victories in referenda and elections.

What is less known is that French financial difficulties continued under de Gaulle, and could have led to the failure of the European Economic Community, and its subsequent replacement by the Free Trade Area.¹⁰ The Free Trade Area was a British project launched in 1956 to align the European continent with British priorities, i.e. free trade with limited regulation and intergovernmental institutions.¹¹ The Free Trade Area was presented by the British—with the support of most European leaders—as a logical complement to the European Economic Community: while the EEC was limited to the six countries willing to share a semi-federal organization, the Area encompassed all of the OEEC members, thus reinforcing the Atlantic Alliance. The Soviet Union still projected a concrete menace in those years, evident in the repression by Soviet troops of the Hungarian uprising in 1956.

However, the Free Trade Area and the European Community were in sharp contrast to one another from an economic point of view: while the Free Trade Area was a purely market-oriented organization, the European Community struck a delicate balance between the opening of markets on the one hand and the inclusion of significant clauses to harmonize legislation and policy—as well as compensation or specific regimes for certain areas (such as agriculture and

¹⁰ This argument is expounded in: Laurent Warlouzet, De Gaulle as a Father of Europe: The Unpredictability of the FTA's failure and the EEC's Success (1956-1958), in: *Contemporary European History* 20,4 (2011), pp. 419-434.

¹¹ Wolfram Kaiser, *Using Europe, abusing the Europeans. Britain and European Integration, 1945-63*, Basingstoke 1996.

overseas territories)—on the other. A market-oriented Europe was central to what was then called the “Common Market”, but clear social elements remained present. Neomercantilism was completely absent, except in agriculture. The many provisions concerning industrial policy that were present in the European Coal and Steel Community (ECSC) had been abandoned because they had remained largely unimplemented.¹² In both cases, the EEC allowed ambitious national social and neomercantilist policies to thrive.¹³ Neoliberalism was not yet present in the Treaty of Rome. In the latest major book released on neoliberalism, Quinn Slobodian points out that the scholars that he considers to be senior neoliberals (e.g. Röpcke and Haberler) were displeased by this European agreement. They considered the treaty as either secondary or even dangerous as it could threaten the return to fully-fledged international liberalization.¹⁴

Eventually, the fate of the FTA was sealed by the successful resolution of the French financial crisis by de Gaulle thanks to an austerity plan unveiled in December 1958 called the Rueff Plan. This plan committed France to a level of European and international free trade not seen in twenty years. Hence, Paris adhered to the Treaty of Rome by opening up this market. Without this decision, it is unlikely that Paris would have been able to sideline the Free Trade Area—a project which had generated considerable interest in Europe, including among the Six. The formidable German Minister of Economics Ludwig Erhard did not hide his preference for the FTA compared to the European Community, which he considered too protectionist.¹⁵ As a result, the successful resolution of the French financial crisis reinforced the Community model, whereas the alternative of the Free Trade Area could possibly have prevailed.

A partial Neoliberalization

The next major economic crises—those of the 1970s—led to a partial neoliberalization of the European continent from the 1980s onwards, but only moderately, as a more classical market-oriented approach remained prevalent. At first, the oil and monetary shocks of 1971-3 led, in the short term, to a reinforcement of the social and neomercantilist features of European institutions.¹⁶ In the early 1970s, the EEC was entrusted with new powers within the social and

¹² The ECSC was not examined as its creation was not directly linked to an economic crisis.

¹³ Orfeo Fioretos, *Creative Reconstructions. Multilateralism and European Varieties of Capitalism after 1950*, Ithaca 2011.

¹⁴ Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism*, Cambridge, MA 2018, pp. 183, 199-201.

¹⁵ Bernhard Löffler, *Soziale Marktwirtschaft und administrative Praxis*, Stuttgart 2002, p. 563.

¹⁶ This chapter is based on: Laurent Warlouzet, *Governing Europe in a globalising world. Neoliberalism and its alternatives following the 1973 oil crisis*, London 2018.

environmental fields.¹⁷ Whereas the most ambitious projects (the democratization of companies, the reduction of working time, and the revival of planning) failed, a body of piecemeal legislation protecting workers, women, and the environment slowly did emerge. A genuinely redistributive policy, as regional policy, was set up in 1975, albeit with limited funding. The neomercantilist streak was visible in the Lomé Agreement concluded in 1975 between the EEC and the 46 associated countries (mostly former British, French and British colonies in Africa, the Caribbean islands and the Pacific), and in various attempts to coordinate national industrial policy in declining sectors (mainly in steel, and to some extent, in textiles). Here too, most attempts failed, notably in shipbuilding.¹⁸ European neomercantilism succeeded with Airbus, which struck its first commercial successes in 1978, but this company was an intergovernmental organization set up outside of the European Community.¹⁹

On the whole, however, the market-oriented direction of European institutions was confirmed and strengthened, both internally with the European Monetary System (EMS) and externally with the GATT Tokyo round.²⁰ Both of these were concluded in 1979, a year considered as a neoliberal watershed, with the advent of Margaret Thatcher in the British government, and the aggressive monetary policy of Paul Volcker, the US Federal Reserve chairman. Additionally, the second oil shock triggered the failure of the concerted relaunch of 1978 (namely, the so-called “locomotive” theory, with West Germany as the locomotive),

¹⁷ Aurélie Andry, *Social Europe in the long 1970s. The Story of a Defeat*. PhD, 2017, European University Institute; Lorenzo Mechi, *Between Community Building and External Relations: ILO-EEC Cooperation from the Treaty of Rome to the Charter of Social Rights (1958-1989)*, in: Lorenzo Mechi / Guia Migani / Francesco Petrini (eds), *Networks of Global Governance. International Organisations and European Integration in a Historical Perspective*, Cambridge 2014, pp. 205-228; Jan-Henrik Meyer, *Green Activism. The European Parliament’s Environmental Committee promoting a European Environmental Policy in the 1970s*, in: *Journal of European Integration History* 17,1 (2011), pp. 73-86; Francesco Petrini, *Demanding Democracy in the Workplace: The European Trade Union Confederation and the Struggle to Regulate Multinationals*, in: Wolfram Kaiser / Jan-Henrik Meyer (eds), *Societal Actors in European Integration. Polity-Building and Policy-Making, 1958-1992*, Basingstoke 2013, pp. 151-172.

¹⁸ On Lomé: Guia Migani, *Development aid: historic priorities and new dynamics*, in: Eric Bussière et al. (eds), *The European Commission, 1973-1986*, Brussels 2014, pp. 393-411; on North-South trade relations: Giuliano Garavini, *After Empires. European Integration, Decolonization, and the Challenge from the Global South, 1957-1986*, Oxford 2012; on industrial policies: Alexis Moraitis, *Transnational Depoliticisation and Industrial Policy: The European Commission and French Steel (1980–1984)* in: *New Political Economy* 25,4 (2020), pp. 552-571; on shipbuilding: Laurent Warloutzet, *The Collapse of the French Shipyard of Dunkirk and EEC State-aid Control (1977–86)*, in: *Business History* 62,5 (2018), pp. 858-878.

¹⁹ David Burigana, *L’Europe, s’envolera-t-elle? Le lancement de Airbus et le sabotage d’une coopération aéronautique “communautaire” (1965-78)*, in: *Journal of European Integration History* 13,1 (2007), pp. 91-108; Ralf Ahrens, *The importance of being European: Airbus and West German industrial policy from the 1960s to the 1980s*, in: *Journal of Modern European History* 18,1 (2020), pp. 63-78.

²⁰ Lucia Coppolaro, *GATT, inflation and exchange rate instability: liberalizing trade in the Tokyo Round negotiations (1973-1979)*, in: Michel-Pierre Chélini / Laurent Warloutzet (eds), *Slowing prices down: European Inflation in the 1970s*, Paris 2016, pp. 323-41; Emmanuel Mourlon-Druol, *A Europe made of Money. The Emergence of the European Monetary System*, Ithaca 2012.

which was coordinated by the G7 and not by the EEC.²¹ This fostered a convergence towards stability-oriented policies, paving the way for a tighter European monetary cooperation.²²

In the late 1980s, a new economic crisis erupted, not in the West but in the East. The systemic crisis of the Eastern socialist economy was one element—but not the only one—to precipitate the collapse of the Soviet bloc. Faced with this huge geopolitical and economic crisis, Europeans reacted by reinforcing the European Community, and by assigning to it a more unabashed neoliberal direction.

While it is well-known that the momentum leading to the Maastricht Treaty was launched before the fall of the Berlin Wall, the latter certainly accelerated the pace of reform, and reinforced its supporters.²³ Kohl's standing in Germany was decisively strengthened by the quick pace of reunification, and it remains to be seen whether Mitterrand would have been able to get a narrow ratification of the Treaty in 1992 (by a narrow 51-49 vote) without the contemporaneous geopolitical upheavals across Europe. Later on, the collapse of the state-led Eastern economies decisively reinforced the neoliberal camp's position in European Union institutions, in particular with respect to some decisions regarding the Economic and Monetary Union (with the domination of a stability-oriented culture), competition policy (in particular, the ban of the ATR/De Havilland merger, which contradicted any attempt at European neomercantilism, and which was heavily disputed within the European Commission), and internal market affairs (with the Bolkestein directive of 2003-4, for example).²⁴ The economic crisis of the Eastern Bloc did not condemn any attempt to support a socially-oriented European integration, but did reorient it: the EU launched vast programs of financial assistance likened by the historian Philipp Ther to a new "Marshall Plan".²⁵ In 1990, the Polish and Ukrainian GDP per capita were on par, with \$1730 and \$1570 respectively.²⁶ Thirty years later, in 2008

²¹ Warlouzet, *Governing Europe*, pp. 143-145.

²² This move took place earlier on in Germany: Tim Schanetzky, *Wirtschaftspolitik, Expertise und Gesellschaft in der Bundesrepublik 1966 bis 1982*, Berlin 2007.

²³ Wilfried Loth, *Negotiating the Maastricht Treaty*, in: *Journal of European Integration History* 19,1 (2013), pp. 67-84; Guido Thiemeier, *Economic Models in France and Germany and the Debates on the Maastricht Treaty*, in: *Journal of European Integration History* 1 (2013), pp. 85-104; Harold James, *Making the European monetary union: the role of the Committee of Central Bank Governors and the origins of the European Central Bank*, Cambridge MA 2012; Frédéric Bozo, *In search of the Holy Grail: France and European Monetary Unification, 1984–1989*, in: Michael Gehler / Wilfried Loth (eds), *Reshaping Europe. Towards a Political, Economic and Monetary Union, 1984–1989*, Baden-Baden 2020, pp. 283-330.

²⁴ On competition policy: Laurent Warlouzet, *The implementation of the Single Market Programme (1985-1992): the examples of Car Emission and of Competition Policy*, in: Gehler / Loth (eds), *Reshaping Europe*, pp. 247-262; on the Bolkestein directive: Amandine Crespy, *Welfare Markets in Europe. The Democratic Challenge of European Integration*, Basingstoke 2016.

²⁵ Philipp Ther, *Europe since 1989. A History*, Princeton 2016, pp. 145-146.

²⁶ World Bank: <https://data.worldbank.org> (01.11.2020).

(i.e. before the last crisis), the average Polish wealth was four times larger, with \$14000 to the Ukrainian \$3900. As a result, the social orientation of European policies was influential in the East, while remaining present but more subdued at the EU level. Specific legislation on discrimination, environmental protection, and working rights have been adopted, but not without difficult debates. In the mid and late 1980s, for example, French neomercantilists opposed the adoption of tougher standards on car emissions.²⁷ By contrast, the European neomercantilist dimension almost completely vanished in the early 1990s, just when the Soviet bloc collapsed, even though it remained present at the national level. The dereliction of former communist industries seems to vindicate the case for free-market policies.

The Eurozone crisis led to a similar pattern of partial neoliberalization. Starting from 2010 onwards, the massive financial difficulties of Greece, Ireland, Portugal, and later of Spain, Malta, and Cyprus, led to a twofold EU response. On the one hand, the neoliberal streak was obvious: southern European countries underwent a massive adjustment between 2009 and 2015, with current account deficits being transformed into surpluses, thanks both to a drop in demand (linked to the economic crisis) but also to a painful process of internal devaluation (i.e. a fall in relative wages), usually accompanied by deep cuts in the welfare state—a clear sign of neoliberalization—sometimes requested by the creditors. Conditionality has always been necessary—it is a normal procedure in all loans, as all creditors want to be sure that they will be refunded by the borrower, and that the latter will not repeat the mistakes that yielded the dire situation in the first place—but a harsh austerity is both socially painful and financially counter-productive as it diminishes the prospect of full reimbursement. Indeed, some arch-neoliberals would have preferred an earlier relief of Greek debt. Additional rules of budgetary convergence (i.e. the 2012 European Fiscal Compact) consolidated this momentum.

On the other hand, social Europe was still present through the creation of a permanent instrument of financial solidarity among Europeans, the European Stability Mechanism (ESM), which materialized earlier attempts at creating a European Monetary Fund. Billions of euros of aid were transferred to the most indebted countries—albeit with strings attached, such as harsh austerity measures. Other countries, such as Italy and France, were indirectly supported by the ECB's quantitative easing, which has lowered interest rates. This fact lies at the core of the recent ruling of the German Constitutional Tribunal, which on 5 May 2020, called into question the legality of the ECB's quantitative easing precisely because it led to excessive losses for

²⁷ On car emission, see: Warlouzet, Implementation of the Single Market Programme; more generally on the history of European environmental policy: Jan-Henrik Meyer, Environmental Policy, in: Vincent Dujardin et al. (eds), History of the European Commission, 1986-2000. History and Memories of an Institution, Luxembourg 2019, pp. 371-387.

German savers. The incomplete banking union can also be understood as a policy partly based on a social approach, as its main aim is to sever the banks from the public purse and to promote financial solidarity.²⁸ An indirect European neomercantilism emerged through the EU's tolerance for massive state aids aimed at recapitalizing banks and the mighty industrial conglomerate (such as carmakers). There was no pan-European strategy, as the takeover of part of the Greek port of Pireaus by a Chinese buyer illustrates.

The Covid-19 crisis from a long-term perspective

The current Covid-19 crisis is one of the most severe crises European institutions have witnessed since 1948 for two reasons. First, it has been unfolding since the spring of 2020, at a time when the EU is facing many concurrent hurdles. The unprecedented challenges of the 2015 “migration crisis” and of Brexit were still lingering when Covid-19 first appeared. Whereas Brexit came into effect on February 1, 2020, future relations between the UK and the EU are still in tatters. With regard to migration, the humanitarian situation remains dire: just before the pandemic, Greece was confronted with a surge in refugees, while simultaneously, boatloads of unfortunate migrants were and still are drowning in the Mediterranean (and in the English Channel on a smaller scale). Lastly, while the Eurozone crisis is also in the rear-view mirror, its consequences in terms of massive indebtedness and austerity regarding social policies are still present in many southern European countries. This has probably worsened the impact of the current pandemic by straining the health systems and limiting the economic response of some governments, such as Greece (whose public debt stood at 195% of GDP in 2019) and Italy (155% of GDP in 2019) (see the table below).

The second reason is linked to this dismal record; the ensuing economic and social crisis will probably worsen internal EU disparities. The Eurozone crisis was life-threatening for the EU because it widened the gap between Northern and Southern Europe. The fact that the financial crisis also began in the north, with the Irish mismanagement of its own banking sector, was largely forgotten. The Covid-19 crisis has reignited this gap. From a health point of view, two of the most-affected countries in Europe (in relative as well as absolute terms) are Spain and Italy—whereas Germany is, again, being hailed as a role model for its coronavirus response. However, the North-South divide is not so obvious in this area, with Greece and Portugal weathering the pandemic relatively well, with far fewer deaths per capita than the UK, the Netherlands, or Sweden (see the table below). However, Greece and Portugal will probably be much more severely affected by the ensuing economic crisis because they depend greatly on

²⁸ On the banking union: David Howarth / Lucia Quaglia, One money, two markets? EMU at twenty and European financial market integration, in: *Journal of European Integration* 42,3 (2020), pp. 433-448.

tourism—a sector much more affected by social distancing measures—than northern European countries, which rely on high-value manufacturing (which is already quite automated) and on services to companies (B-to-B) that can be provided remotely (IT, financial services, accounting, etc.), and which are less dependent on international travel of people (as opposed to goods and service). As a result, a country like Greece, which is confronted with the migration crisis on top of the pandemic, could end up bankrupt despite seemingly better management of the pandemic than countries like the Netherlands and Sweden, two members of the “Frugal Four” group (alongside Austria, Denmark, and Sweden), which refuses unconditional financial transfer. Of course, other factors such as geography also count: Eastern Europe has so far been less affected by the pandemic than Western Europe (see the figures for Poland and Greece below), younger countries are less at risk than older ones, statistics are not constructed identically everywhere, etc. But even if geography is taken into account, the Greek death toll was lower than those of neighboring countries: the number of deaths per 1 million inhabitants stands at 55 in Greece, 114 in Serbia, 120 in Turkey, 165 in Bulgaria, and 170 in Albania.²⁹ To some extent, the table below shows that the crisis reinforces past inequalities, as growth prospects appear to be more correlated with debt (and hence to past economic performance), rather than with deaths from the pandemic (see below the examples of Greece, Portugal, Spain, Italy, but also France).

²⁹ Source: Figures on 28 October 2020, from John Hopkins University, collected by Le Monde, Coronavirus: visualisez l'évolution de l'épidémie en France et dans le monde.

Table: mortality, debt and growth prospects among selected European countries

Countries classified by Covid-19 mortality	Deaths per one million inhabitants	Debt / GDP (2019, OECD)	Growth prospect for 2020
Greece	55	195%	-9 %
Poland	121	64%	-4.5%
Germany	122	69%	-6.3%
Portugal	230	136%	-9.8%
Netherland	418	62%	-6.8%
France	530	124%	-10.5%
Sweden	581	56%	-5.3%
Italy	623	155%	-11.2%
UK	683	117%	-9,1%
Spain	755	117%	-10.9 %

Table: mortality, debt and growth prospects among selected European countries (Figures on 28 October 2020, from John Hokpins University, collected by Le Monde, Coronavirus: visualisez l'évolution de l'épidémie en France et dans le monde; and from European Commission, Summer 2020 Economic Forecast, July 2020; except for the UK: HM Treasury, Forecast for the UK economy. A comparison of independent forecasts, 396, July 2020, p. 3.)

This fractured Union now faces a double neoliberal and neomercantilist challenge. The neoliberal one is characterized by an austerity policy that targets the welfare states, thus increasing inequalities. The pandemic has already had adversarial distributional consequences, as the poorer have been disproportionately affected by the recession (and by the disease, as such), since they often work in low-paid service jobs that could not be performed remotely, and are more likely to live in crowded flats and also to be affected by illnesses.³⁰

At the EU level, the most famous debate concerns the management of macroeconomic solidarity. It pits against each other the neoliberals who shy away from any sort of debt mutualization, and those in favor of a more social approach who want to encourage it. The latter's position is reinforced by the fact that this crisis concerns all countries. Hence, the swift action of the Commission—which has suspended the rules of the Stability Pact and the ECB—to launch a new wave of quantitative easing (although the social consequences of the latter are

³⁰ Iris Borowy, Covid-19: What is the New Normal? Or What Should it Be?, 13 May 2020, medium.com (01.11.2020).

disputed³¹). The famous agreement on 20 July 2020 to mutualize debt and to provide grants—and not only loans—is a decisive step in the direction of greater solidarity. The agreement pushed the logic of the European Stability Mechanism even further, and represents a socially-oriented complement to the more strictly ordoliberal EMU set up in Maastricht.³² Ordoliberalism is visible in institutional provisions aimed at promoting stability-oriented policies (e.g. the ECB mandate focused on inflation and the surveillance of national debts and deficits) and strict conditionality when transfers are granted among members, even though hardcore ordoliberals were disappointed by the Treaty.³³ While the connection between ordoliberalism and neoliberalism has been discussed, the emphasis on stability-oriented macroeconomic policies is common to both approaches.³⁴ In the July 2020 agreement, conditionality seems less neoliberal than before, as the member-states are involved in the process, and because environmentally-friendly objectives are included. This decisive shift could tentatively be explained by Brexit—which has removed a significant obstacle to greater solidarity—and by the evolution of the German position, probably because the current plight cannot be explained by mismanagement of the economy, or by a country fiddling with its statistics. Nevertheless, it remains to be seen how conditionality will work in detail and how the extra resources needed will be collected (i.e. to what extent the new resources will be redistributive and environmentally-friendly or regressive). Moreover, the new plan represents €750 billion, which should be compared with an EU GDP of €13,000 billion, which is predicted to diminish by 8,7% in 2020.³⁵

But this famous debate over the EMU has hidden another looming threat, namely the neomercantilist challenge, i.e. the advent of more adversarial and transactional trade relations characterized by regular trade wars instead of multilateral talks and procedures. Such a threat has existed before: Euro-US trade relations have often been tense in the past, notably under Reagan³⁶, but the international free-trade order progressively built up after 1945 has never been threatened in such a manner than by the rise of a more assertive China under Xi Jinping, and a

³¹ Clément Fontan / François Claveau / Peter Dietsch, Central banking and inequalities: Taking off the blinders, in: *Politics, Philosophy & Economics* 15,4 (2016), pp. 319-357.

³² For a broader perspective on the history of EMU before the pandemic: David Howarth / Amy Verdun, Economic and Monetary Union at twenty: a stocktaking of a tumultuous second decade: Introduction, in: *Journal of European Integration* 42,3 (2020), pp. 287-293.

³³ Josef Hien / Christian Joerges, Dead man walking: Current European interest in the ordoliberal tradition, Florence, EUI Working Paper, Law 2018/03, 2018.

³⁴ Cf. Stephanie Lee Mudge, What is Neoliberalism?, in: *Socio-economic Review* 6 (2008), pp. 703-731.

³⁵ European Commission, Summer 2020 Economic Forecast.

³⁶ On US-EU trade tensions: Arthe Van Laer, The European Community and the Paradoxes of US Economic Diplomacy: The Case of the IT and Telecommunications Sectors, in: Kiran Klaus Patel / Kenneth Weisbrode (eds), *European Integration and the Atlantic Community in the 1980s*, Cambridge 2013, pp. 105-132.

more aggressive USA since the election of Donald Trump. Even under a Joe Biden presidency, trade policy probably will become less confrontational, but still more aggressive than under Obama, as there is now bipartisan support for tougher measures to address the trade deficit, notably against China.

This adversarial environment has rekindled the old debate about the emergence of a European neomercantilist project. Such a project would consist of EU-wide measures aimed at bolstering European companies at the expense of non-European ones, for example through specific funding or legal privileges such as preferential treatment for public procurement. This project has never gained traction, except at certain brief moments (such as the steel crisis in the early 1980s) or for specific ventures in strategic industries (Airbus, Ariane). The most enthusiastic free-traders have never seen any merit in it, since many firms have exported without strong state support. Moreover, European countries are desperate to attract non-EU companies, sometimes through neoliberal measures such as tax breaks, which can be considered a neoliberal form of neomercantilism. Conversely, the most enthusiastic promoters of industrial policy have usually had a narrow nationalist vision—or, if they have promoted international cooperation, it was not always with European companies. In 1974, for example, arch-Colbertist France fostered a rapprochement between the national company SNECMA and the US giant General Electric to set up CFM International, which has become one of the top producers of jet engines. The same year, Paris launched a massive program of building of nuclear power plants based on a Westinghouse license, and not on the French existing model.

This forlorn debate has begun to change recently: in 2019, even the German economic minister agreed to sign a common manifesto with his French counterparts, calling for a reform of competition policy rules in order to better take into account the unfair advantages enjoyed by certain foreign companies that could invade a market in the near future.³⁷ Those requests have been frequent in Paris in the past but unheard of at the official level in Berlin, as they are reminiscent of old-fashioned dirigist industrial policy, which seems not only pointless for such as a successful exporting powerhouse as Germany but also dangerous, as it could foster a protectionist tit-for-tat. This change was triggered by the 2019 Commission's decision to ban the Franco-German merger of the two rail giants Siemens and Alstom, but more fundamentally, also by a growing fear of Chinese manufacturing, which has been scaling up and engaging in a buying spree of European high-tech companies, including German ones.

³⁷ A Franco-German Manifesto for a European industrial policy fit for the 21st Century, available on www.bmwi.de (01.11.2020).

A limited European neomercantilism has emerged at the EU level. Once the pandemic began in Europe, the European Commissioner for Competition Margrethe Vestager was quick to relax state-aid rules and to accept massive subsidies. The Danish commissioner has also urged the government to monitor ailing strategic firms in order to stop China from buying them at a bargain price.³⁸ Moreover, in its response to the Covid-19 crisis, Berlin has been the most enthusiastic provider of state aid—with Vestager worrying publicly about German aid representing half of the EU total—and has even held talks about renationalizing 20% of Lufthansa.³⁹ The Covid-19 crisis has also enlarged the scope of the notion of “strategic” products, i.e. those products that could be entitled to neomercantilist measures shielding them from pure free-market rules, from surgical masks to vaccines. Current events have also strengthened the so-called GAFAM (Google, Apple, Facebook, Amazon and Microsoft), and the problem of their regulation by the EU either through competition rules or via legislation on data. As a result, the current challenge for the EU is the promotion of a European neomercantilism which would not be an expression of selfish nationalism (or Europeanism), but which could be compatible with the promotion of international norms, both from a market-oriented and social point of view. This association was at the core of the boom years of 1945-75, when strong national neomercantilist policies were compatible with growing trade liberalization and enhanced social welfare.

By contrast, today, neomercantilism tends to be associated with neoliberalism—an association that could be fostered by the pandemic. A sharp economic crisis, massive unemployment, and poverty would quickly lead many people to swap their generous environmentally-friendly aspirations for local “dirty” jobs. Donald Trump’s policy is characterized by a combination of external neomercantilism—i.e. a more assertive protectionist policy—and internal neoliberalism—by downgrading social and environmental standards.⁴⁰ In Britain, the current Prime Minister Boris Johnson has remained vague about his intentions, but he has surrounded himself with defenders of the neoliberal “Singapore-on-the-Thames” vision expounded by five of his ministers in a 2012 essay.⁴¹ Within the framework of the negotiations over future UK-EU regulations, London has unveiled a free-trade agreement that is reminiscent of the original 1956 Free Trade Area. It shies away from any convergence in terms of social,

³⁸ Is China winning? *The Economist*, 18 April 2020.

³⁹ Björn Finke, Vestager sieht Bevorzugung Deutschlands bei Staatshilfen, *Süddeutsche Zeitung*, 17 May 2020; Lufthansa und Staat brauchen noch Zeit, *Süddeutsche Zeitung*, 22 May 2020.

⁴⁰ Through attacks on Obamacare; on the reduction of environmental standards: Environmental Protection. Revenge of the Polluters, *The Economist*, 25 February 2017; Environmental regulation. Mercury rising, *The Economist*, 25 April 2020.

⁴¹ Kwasi Kwarteng / Priti Patel / Dominic Raab / Chris Skidmore / Liz Truss, *Britannia Unchained: Global Lessons for Growth and Prosperity*, Basingstoke 2012.

environmental, and neomercantilist (state aid) regulations.⁴² Therefore, it seems that the UK could be ready to embark on the neomercantilist and neoliberal bandwagon—even though different outcomes are possible, as this “Singapore-on-the-Thames” coalition is only one group among others.⁴³

For the EU, this challenge is both a stimulating and worrying prospect. The Union clearly holds leverage in increasing its member states’ influence in trade negotiations. On the other hand, if leading Western powers such as the USA and the UK play hardball and strive to divide the EU members, more tensions can be expected. With regard to the post-Brexit negotiations, if the EU manages to keep British regulatory competition at bay, either by standard convergence or by border control, then Brexit could remain an exception. Otherwise, it would be in the interest of other member-states to leave the EU to obtain a tailored relationship to the Single Market. As a result, the European Union could progressively unravel and be replaced by a large free-trade area covering the entire continent—from Norway to Turkey—and reminiscent of the original British project of 1956.

Conclusion

European integration has evolved around a market-oriented core supplemented by social and neomercantilist elements,—a model that was largely (but not completely) shaped in response to economic and financial crises. Both the first European organization, the OEEC, and the current main European treaty—the 1957 Treaty of Rome—emerged out of financial crisis. They defined a European integration process mainly driven by a market-oriented dynamic, supplemented by social and neomercantilist elements which remained nonetheless less developed than those existing at the national level. The crises of the 1970s had a twofold impact, first fostering the development of the social and neomercantilist Europe and later on unleashing a neoliberal dynamic upon the continent, mainly in the late 1980s, and in particular after the Eastern Bloc economic crisis erupted with the collapse of the Soviet bloc. The last bout of neoliberalism manifested itself in the eurozone crisis.

The debate on European neomercantilism has generally been overlooked. After all, European integration has always been about liberalization; thus, the only legitimate debate seemed to revolve around the need for counterbalancing social measures. But this dual

⁴² Draft working text for a comprehensive free trade agreement between the united Kingdom and the European Union, released on 20 May 2020 on <https://www.gov.uk/> (01.11.2020).

⁴³ Andrew Baker / Scott Lavery, Brexit and the Future Model of British Capitalism, in: Patrick Diamond / Peter Nedergaard / Ben Rosamond (eds), *The Routledge Handbook of the Politics of Brexit*, London 2019, pp. 66-79.

opposition ignores the fact that neomercantilist tendencies have always been prominent in many European countries, as they are a major expression of national identity. Hence the difficulty in combining these at the European level, and their association with the constraints and opportunities of international free trade. This debate goes beyond the usual opposition between a dirigist France and a free-trading Germany, because all countries have neomercantilist temptations, and because Paris and Berlin have recently moved slightly closer on this issue. The current Covid-19 crisis seemingly reinforces the neomercantilist and social aspects of the EU economic mix, but it remains to be seen how the EU would cope with the daunting dual neomercantilist and neoliberal challenge that could be further aggravated by the pandemic.

Laurent Warlouzet: European integration and economic crisis up to Covid-19. From reconstruction to the twin neoliberal and neomercantilist challenges, in: Themenportal Europäische Geschichte, 2020, <www.europa.clio-online.de/essay/id/fdae-94802>.